Background and Worksheet Instructions for:
Evaluating the Procurement Card Program

Background

The Department of Management and Budget's (DMB) Office of Financial Services manages the Central Procurement Card Program. The focus of the Procurement Card Program is to provide State of Michigan personnel with the ability to effectively and efficiently make small, delegated purchases, without compromising appropriate controls. Personnel may use procurement cards to make job-related purchases in person, by mail, by telephone, or via the Internet. The procurement card may be used for any single purchase that is $2,500 or less, in accordance with Administrative Guide Policy 0510.01- Delegated Purchase Authority for Supplies, Materials, Equipment, Printing, and Services and other directives governing procurement methods (e.g. Executive Directives). Although personnel may not use the procurement cards to incur personal travel related expenses, cards may be designated accounts, commonly referred to as ghost accounts, to purchase airplane, bus, and train tickets. JP Morgan Chase (JPMC) makes payments to the vendors for purchases made and receives reimbursement from DMB. In turn, DMB receives reimbursement from the department that made the purchases.

To assist with monitoring the Procurement Card Program, an internal control evaluation worksheet has been prepared. Each activity level manager should use this worksheet to evaluate and document internal controls relating to the Procurement Card Program. Results of these evaluations should also be considered when performing the department's overall evaluation of internal controls that contribute towards the achievement of department-wide objectives. Specific instructions for completing the evaluation worksheet follow:

Specific Instructions

- *Activity Level Objective (Column 1)* - Identifies significant objectives related to the Procurement Card Program.

- *Risk Factors (Column 2)* - Identifies risks associated with each objective. Risks may be identified as the result of answering the following types of questions: 1) "What is the potential result of not efficiently/effectively performing control activities to meet a specific objective?" or 2) "What are potential effects on reliability of financial reporting, compliance with laws and regulations, safeguarding of program assets, efficient use of program resources?"

- *Risk Rating (Column 3)* - Assigning a risk rating is helpful in prioritizing. If a risk is inherently low, less time should be spent

thinking it through – and fewer resources spent managing it. High risks demand more attention.

To assess a risk, both of the following should be considered:

- **Severity/Significance** – How serious would it be if the effect were to occur? What's the impact?

- **Frequency/Likelihood** – How likely is it to occur?

For these purposes, a reasonable rating of high, medium, or low is sufficiently precise. For most risks, a single rating is enough. For some, a split rating (e.g. high significance, low likelihood) might be meaningful.

- *Actions / Control Activities (Column 4)* - Identifies control activities (policies, procedures or practices) that exist within the procurement card program that mitigate identified risks. Additional control activities may be added to the worksheet. Be as detailed as possible; describe specific control activities that do not represent formal policies/procedures or are not otherwise documented.

  Generally, identify control activities that:

  o Provide separation of duties and responsibilities among employees.

  o Limit access to State resources to authorized personnel requiring access within scope of assigned duties.

  o Assure appropriate authorizations and record-keeping procedures are used to control assets, liabilities, revenues, and expenditures.

  o Assure established policies and procedures are followed in performance of assigned functions.

  o Ensure personnel are qualified and maintain a sufficient level of competency.

  o Ensure activity level objectives are accomplished efficiently.

- *Monitoring (Column 5)* - Identify monitoring activities used by the activity level manager to ensure established internal controls are operating and effectively address identified risks. Include results of testing conducted under the direction of management as evidence to support conclusions. Provide detailed responses; describe specific monitoring activities that do not represent formal policies/procedures or are not otherwise documented.

- *Conclusions (Column 6)* - Record a conclusion on the sufficiency/effectiveness of existing internal controls, and proposed actions (i.e., corrective actions) to address internal control weaknesses. Monitoring activities are the key factor in concluding about the effectiveness of control activities. It is difficult for an activity manager to reach conclusions about the effectiveness of control procedures without first implementing appropriate monitoring activities.